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ABSTRACT

Paying for care for children or adult dependents takes a large portion of many families' already limited budgets. Yet without such care, married-couple and single-parent families alike have difficulty entering or remaining in the labor force. The tax codes of the federal government and about half the states provide some assistance to families in meeting their employment-related care expenses. However, many states provide little or no tax assistance to families struggling to pay for care that is so essential to their economic well-being. This report was designed to help state policymakers and advocates rectify this situation and assist them in developing the best child and dependent care (CADC) income tax provisions possible for their states. By analyzing and evaluating tax policies relating to care for children and adult dependents, the report can help states enact such provisions and help other states improve CADC provisions already in place. The report reviews the reasons for supporting enactment of CADC tax provisions; describes the federal child and dependent adult care tax credit, which serves as the basis for many state provisions; and provides an overview of the state CADC tax provisions in effect for tax year 1993. The report also identifies policy decisions commonly made when enacting and implementing a CADC income tax provision and makes recommendations designed to help policymakers and advocates identify and pursue the best decisions for families. (TJQ)

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MAKING CARE LESS TAXING

IMPROVING STATE CHILD AND DEPENDENT CARE TAX PROVISIONS

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APRIL 1994

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TABLE OF CONTENTS

		Page
I.	Policies Served by Child and Dependent Care Tax Provisions	1
II.	The Federal Child and Dependent Care Tax Credit	3
III.	State Child and Dependent Care Tax Provisions: An Overview	6
IV.	Designing State Child and Dependent Care Tax Provisions: Issues and Choices	9
	A. Should States Enact CADC Tax Provisions?	9
	B. Linkage to the Federal CADC Credit	10
	C. Targeting Assistance to Lower-Income Families	12
	1. Credits versus Deductions	12
	2. Refundability	13
	3. Sliding Scales and Maximum Income Limits	14
	D. Coverage for Both Children and Adults	15
	E. Expense Limits	16
	F. Coverage for Both In-Home and Out-of-Home Care	17
	G. Indexing for Inflation	18
	H. Short Forms	18
	I. Filing Requirements for Married Couples	19
	J. Residency	19
V.	Conclusion	20

MAKING CARE LESS TAXING

IMPROVING STATE CHILD AND DEPENDENT CARE TAX PROVISIONS

Paying for care for children or adult dependents takes a big bite out of many families' already limited budgets. Yet without such care, married-couple and single-parent families alike have difficulty entering or remaining in the labor force. As a result, families across the country are caught in a bind: finding the financial resources to pay for the child and dependent care necessary for them to earn a living. The tax codes of the federal government and about half the states provide some assistance to families in meeting their employment-related care expenses. However, many states provide little or no tax assistance to families struggling to pay for the care that is so essential to their economic well-being.

This report is designed to help state policymakers and advocates rectify this situation and assist them in developing the best child and dependent care (CADC) income tax provisions possible for their states. By analyzing and evaluating tax policies relating to care for children and adult dependents, this report can help states lacking such provisions enact them, and help other states improve CADC provisions already on the books. The report reviews the reasons supporting enactment of CADC tax provisions; describes the federal child and dependent care tax credit, which serves as the basis for many state provisions; and provides an overview of the state CADC tax provisions in effect for tax year 1993.[1] Finally, the report identifies policy decisions commonly made when enacting and implementing a CADC income tax provision and makes recommendations designed to help policymakers and advocates identify and pursue the best decisions for families.

I. Policies Served by Child and Dependent Care Tax Provisions

There are a number of good reasons to adopt CADC income tax provisions.

- **Assistance for Families with Large Employment Expenses**: Many families have employment-related care expenses that put a severe strain on the family budget.[2]

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[1] A "report card" grading state child and dependent care tax provisions according to a point system based on the best state policies, *Making the Grade for Care: Ranking State Child and Dependent Care Tax Provisions*, accompanies this report.

[2] Sixty-seven percent of mothers of children under age eighteen, 58 percent of mothers of children under age six, and 54 percent of mothers of children under age two are in the labor force. Staff of House Committee on Ways and Means, 103d Cong., 1st Sess. *Overview of Entitlement Programs: 1993 Greenbook* 975 (Comm. Print 1993). Although there are not reliable data on the number of individuals in the labor force with dependents unable to care for themselves, an estimated 7 percent of workers — 56 percent of whom are women — care for disabled spouses, relatives or friends age fifty or older. Families and Work Institute, *The National Study of the Changing Workforce* (1992).

Indeed, families who pay for care spend between 6 and 23 percent of their weekly family income on child care — comparable to the 10 percent of family income spent on food and the 23 percent of family income spent on housing.[3] The average cost of care for employed mothers who pay for care for a child under age five was $3,000 per year in 1990; for a child age five to twelve, the average cost was $1,900 per year.[4] Employment-related care expenses for adult dependents can also be very high. The average cost of adult day care varied from a low of $20 per day in Mississippi to $47 per day in Maryland in 1992[5] — $5,200 and $12,220 a year, respectively. Many families simply do not have the financial resources to pay for care of children or adult dependents; as a result, the cost of employment-related care keeps many individuals out of the job market.

- **Equitable Income Tax Treatment of Families**: Treating taxpayers according to their ability to pay is a cornerstone of tax fairness. A family that earns $25,000 a year but must spend $3,000 for child care in order to earn that income has less available income than a family that earns $25,000 and has no employment-related expenses. Because employment-related care expenses can cut deeply into a family's income, CADC tax provisions recognize that a family with such expenses should pay less tax than a family with the same income but no employment-related care expenses. The federal tax code recognizes a number of large, employment-related expenses — such as office furnishings, automobiles used in a trade or business and business meals and entertainment — and excludes them, or a portion of them, from taxed income. CADC tax provisions apportion tax liability more equitably among families and embody the important principle that employment-related care expenses are a genuine cost of earning income.

- **Higher Quality Care**: All children and adults unable to care for themselves need care that protects their well-being and promotes their development. Such higher quality care costs more money.[6] Care payments go toward making facilities safe and providing

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[3] Sandra L. Hofferth et al., *National Child Care Survey 1990* at 198-99 (1991); Barbara Willer et al., *The Demand and Supply of Child Care in 1990* at 31 (1991).

[4] Hofferth et al., supra at 137-8, 145.

[5] James Swan, *State Medicaid Reimbursement Survey* (1993) (unpublished manuscript at Wichita State University).

[6] For example, the average cost of child care in full-day, full-year, center-based programs for four-year-olds accredited by the National Association for the Education of Young Children was $4,797 in 1990. U.S. General Accounting Office, *Early Childhood Education: What Are The Costs of High Quality Programs?* (1990).

activities, equipment, and staff ratios that promote children's and adults' development. Another key factor in quality care is maintaining low staff turnover, which is only possible when care workers are paid a salary that reflects their education, experience, and skills.[7] Tax code provisions that put more money in families' hands for employment-related care expenses help them to purchase better care for their children and other dependents.

- **Equity for Women**: Women continue to bear the bulk of responsibility for care of children and adult dependents. Tax code provisions that assist women in paying for care for children and adult dependents take some of the burden off women and lessen barriers to women's participation in the workplace, enabling them to support themselves and their families. Assistance with employment-related care is especially important for single mothers, who are more likely to be poor than married couples or single fathers.[8] In addition, by enabling families to pay more for care, CADC tax provisions can raise the income of child and dependent care workers, who are largely women and are grossly underpaid.

II. The Federal Child and Dependent Care Tax Credit

The federal tax code has had a child and dependent care tax credit since 1976, usually referred to as the dependent care credit.[9] Under the credit, a portion of employment-related

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[7] A recent study of center-based child care found average annual salaries for 1992 ranging from $8,890 for the lowest-paid teaching assistants to $15,488 for the highest-paid teaching staff, and a turnover rate between 1991 and 1992 of 26 percent — nearly three times the annual rate of 9.6 percent reported by all U.S. companies and well above the 5.6 percent rate reported for public school teachers. Child Care Employee Project, *The National Child Care Staffing Study Revisted* 10 (1993).

[8] For 1992, the median income of sole-female-maintained families with children was $13,445, well below the median income of $22,366 of sole-male-maintained families with children and the median income of $44,483 of married-couple families with children. Moreover, 46 percent of sole-female-maintained families with children were poor in 1992, compared to 22 percent of sole-male-maintained families with children and 8 percent of married-couple families with children. Bureau of Census, U.S. Dep't of Commerce, Current Population Reports, Consumer Income, Series P 60-184, Money Income of Households, Families and Persons in the United States: 1992, Table B-12 at App. B-25 and Series P 60-185, Poverty in the United States: 1992, Table 4 at 6.

[9] The origin of the credit was a 1954 provision establishing a tax deduction for certain employment-related child and dependent care expenses. The deduction was converted to a credit in 1976. The current federal CADC credit is found at 26 U.S.C. § 21.

expenses is subtracted from the taxpayer's federal tax liability to reduce the amount of tax actually owed the federal government. The federal credit is important to state CADC tax provisions for two reasons. First, most states' CADC tax provisions are tied to the federal credit, using some or all of the provisions of the federal credit to determine the state tax benefit. Second, the federal credit can serve as a model for states to develop CADC tax provisions that are independent of the federal provision.

The federal credit has the following key features:

- **Employment-related expenses for both children and adult dependents are covered.** Under the federal credit's current provisions, employment-related expenses[10] for children under the age of thirteen who live with the taxpayer may be claimed. Formerly, expenses for children up to age fifteen were covered; Congress lowered the age limit for tax years beginning in 1989. Also eligible for the credit are employment-related expenses for spouses and dependents age thirteen and older who live with the taxpayer and are incapable of self-care.

- **Care both in and out of the home is covered.** The federal law allows families to claim the tax credit for both in-home and out-of-home care arrangements. A limitation is that expenses for out-of-home care for spouses and dependents age thirteen and older who are incapable of self-care can be claimed only if the spouse or dependent spends at least eight hours a day in the taxpayer's household. This prevents families from receiving the credit for institutional care.[11]

- **Expenses eligible for the credit are limited.** Families can claim work-related expenses of up to $2,400 for one child or dependent, and up to $4,800 for two or more children or dependents. Any expenses above these amounts are not eligible for the credit.[12]

- **The credit targets the greatest amount of assistance to lower-income families.** Only a portion of eligible expenses may be taken as a credit, the portion dropping on a sliding

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[10] Employment-related expenses are expenses incurred while the taxpayer is gainfully employed or in active search of gainful employment. If the taxpayer is married, the taxpayer's spouse must also be employed or looking for employment, unless the spouse is a full-time student or incapable of self-care.

[11] In addition, expenses paid to a "dependent care center," defined as a facility that provides care for more than six individuals, can be claimed only if the center complies with applicable state and local laws.

[12] In addition, the expenses claimed may not exceed the earned income of the taxpayer or the taxpayer's spouse, whichever is less.

scale as the taxpayer's income rises, from 30 percent to 20 percent. The following chart illustrates the maximum credit amounts at different income levels:

Adjusted Gross Income	Percent of Expenses Credited	One Child/ Dependent	Two or More Children/ Dependents
$ 0 - 10,000	30%	$720	$1,400
10,001 - 12,000	29%	696	1,392
12,001 - 14,000	28%	672	1,334
14,001 - 16,000	27%	648	1,296
16,001 - 18,000	26%	624	1,248
18,001 - 20,000	25%	600	1,200
20,001 - 22,000	24%	576	1,152
22,001 - 24,000	23%	552	1,104
24,001 - 26,000	22%	528	1,056
26,001 - 28,000	21%	504	1,008
28,001 +	20%	480	960

- **Married couples must file a joint return to be eligible for the credit.** This rule does not apply to legally separated married couples, or certain married individuals who are living apart from their spouse and providing over half the cost of maintaining their own home.

The federal CADC income tax credit is the single largest source of federal child care assistance. According to preliminary data of the Internal Revenue Service, 5.5 million taxpayers claimed the federal CADC credit and received over $2.3 billion in tax benefits in 1992. There are, however, a number of features of the federal credit that undermine its value to families with employment-related care expenses, particularly those with lower incomes.

- **The federal credit is not refundable.**[13] This means that families who qualify for a credit that is larger than their tax liability receive only a portion of the credit — up to the amount of tax owed — for which they are eligible. For example, a family that qualifies for a credit of $600 but only owes $400 in taxes will receive a credit of only $400. If the credit were refundable, the family would receive a tax refund of $200. The credit's nonrefundability affects primarily those families who owe relatively little tax — typically families with more limited income whose need for assistance with employment-related care expenses may be the greatest. Families whose income is so low that they owe no tax receive no federal credit at all.

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[13] The federal tax provision making the federal CADC credit nonrefundable is at 26 U.S.C. § 26.

- **Over time, fewer and fewer families receive the benefit of the credit's low-income targeting because the credit is not refundable and because the sliding scale thresholds are not indexed for inflation.** The dollar amounts of basic tax provisions that determine tax liability — for instance, the personal exemption, the standard deduction, and the earned income credit — are indexed for inflation. Because the CADC credit's sliding scale thresholds are not indexed for inflation, however, over time the targeting to lower-income families provided by the sliding scale will be eroded as fewer and fewer families have incomes low enough to claim the credit's highest percentages of expenses. For example, for tax year 1993 the tax thresholds for all married couples with children are above $10,000; the thresholds for heads of household with two or more children or dependents are above $12,000, and for married couples with two or more children or dependents are above $15,000. As these examples illustrate, there are virtually no families eligible for the highest credits of 30-29 percent of their expenses, since even families with only one or two children or dependents do not pay taxes at the income levels eligible for these percentages. Without refundability or indexing of the sliding scale, both the availability of the credit and its low-income targeting will continue to erode over time.

- **The dollar expense limits do not reflect the cost of care.** When the current expense limits were set in 1981, they reflected the average costs of child care. But they have not been updated since, and are not routinely indexed for inflation. Moreover, they have always been inadequate to cover the high cost of adult day care. As a result, the expense limits of the credit are not reflective of many families' actual care expenses.

III. State Child and Dependent Care Tax Provisions: An Overview

Twenty-three states (including the District of Columbia) have CADC income tax provisions.[14] These provisions may be credits, which, like the federal credit, are amounts offset against state tax liability to reduce the amount of state tax owed. Or these provisions

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[14] These states are Arkansas, Delaware, the District of Columbia, Hawaii, Idaho, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Montana, Nebraska, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, South Carolina and Virginia. Two more states — Rhode Island and Vermont — calculate state income taxes as a percentage of federal tax liability, and so indirectly have a CADC provision. Seventeen states have a personal income tax but no CADC provision — Alabama, Arizona, California, Colorado, Connecticut, Georgia, Illinois, Indiana, Michigan, Mississippi, Missouri, New Jersey, Pennsylvania, Utah, Virginia, West Virginia, and Wisconsin. Nine states — Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming — have no personal income tax.

may be deductions, which reduce the amount of income subject to the state tax and ultimately reduce the amount of state tax owed.

Most state CADC provisions are dependent on or tied to the federal credit, meaning that the taxpayer's state credit or deduction is determined by some or all of the provisions of the federal credit. A few states have state CADC provisions that are not tied to the federal credit.

- Thirteen states provide a *tax credit whose amount is determined by the amount of the federal credit that the taxpayer is eligible to receive*. The states with this type of provision are Arkansas, Delaware, the District of Columbia, Iowa, Kansas, Kentucky, Louisiana, Maine, Minnesota, Nebraska, New York, Ohio, and Oklahoma. Typically, the state credit is a percentage of the federal credit.[15] Although this type of provision is the simplest to calculate, its adequacy varies considerably depending on the percentage selected. In the thirteen states with this form of credit, the percentage ranges from a low of 10 percent to a high of 100 percent;[16] in eight of these states, the top percentage is at or below 25 percent;[17] in only two does the top percentage exceed 50 percent.[18] Accordingly, the maximum value of the credits in these thirteen states, when Louisiana's very low credit of $25 is excluded, ranges from $144 to $1,440.

- Four states provide a *tax deduction for expenses eligible for the federal credit*. These states are Idaho, Maryland, Massachusetts, and Virginia. Although the value of this type of provision is also simple to calculate — multiplying eligible expenses by the applicable tax rate — state tax rates are so low that such provisions yield low benefit amounts. Thus, with top tax rates varying from 8.2 percent in Idaho to 5.75 percent in

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[15] In two of these states — Iowa and Ohio — the percentage falls as the income of the taxpayer rises, thereby increasing the targeting to lower-income taxpayers beyond that already provided in the federal credit. Minnesota's credit, whose amount is determined in part by reference to the federal credit, but is not calculated as a simple percentage of the federal credit, also allows lower-income families to claim a larger credit amount than higher-income families.

[16] Arkansas and Louisiana provide a credit of 10 percent of the federal credit (Louisiana's credit is capped at a maximum of $25). In Minnesota, lower-income families receive a credit of 100 percent of their federal credit.

[17] These states are Arkansas, Kansas, Kentucky, Louisiana, Maine, Nebraska, New York, and Oklahoma.

[18] These states are Iowa and Minnesota.

Virginia, the maximum value of these four state tax deductions ranges from a high of $394 in Idaho to a low of $276 in Virginia.[19]

- Three states provide a *tax credit whose amount is a percentage of the expenses eligible for the federal credit*. This type of provision is similar in effect to provisions that are a percentage of the federal credit, except that in this instance, unless the percentage varies inversely with income, the provision will not contain any targeting to lower-income families. States with this type of provision are North Carolina, Oregon, and South Carolina. Only in Oregon does the percentage vary inversely according to income, ranging from a low of 4 percent to a high of 30 percent.[20] The maximum credits in the states with this type of provision range from a high of $1,440 in Oregon to a low of $336 in South Carolina.

- Two states provide a *tax credit for a portion of child care expenses whose amount is not determined by the federal credit*. Hawaii provides a credit of 15 to 25 percent of child and adult care expenses, up to $2,400 for one child or adult dependent and $4,800 for two or more children or adult dependents; New Mexico provides a credit of 40 percent of child care expenses up to $8 per day, per child. Both Hawaii and New Mexico provide maximum credits of $1,200.

- One state, Montana, provides a *deduction for expenses up to a specified amount*.[21] Expenses are limited to $2,400 for one child or dependent, $3,600 for two, and $4,800 for three or more.[22] The portion of expenses that is deductible depends on the income of the taxpayer, with lower-income taxpayers receiving a larger portion. The maximum tax benefit under the Montana deduction is $259.

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[19] Maryland's, Massachusetts' and Virginia's deductions yield CADC tax benefits that are among the lowest in the nation; indeed, only Louisiana's maximum credit of $25 is lower than the maximum benefits provided by Massachusetts' and Virginia's deductions.

[20] In South Carolina the percentage is a flat 7 percent; in North Carolina the percentage is 7 percent for expenses for children age seven and older, and 10 percent for expenses for children under age seven and all dependents who are incapable of self care. Effective for tax year 1994, the North Carolina credit percentages will be increased to a range of 7 to 13 percent and will vary inversely according to income.

[21] Montana has repealed its provision, effective for tax year 1994.

[22] It is unclear from the Montana statute whether children and adult dependents are subject to the same expense limits, but the Montana tax form and instructions indicate that they are.

The maximum value of all state CADC tax provisions ranges from $25 in Louisiana to $1,440 in Minnesota and Oregon. The appendix provides state-by-state descriptions, including maximum credit amounts, of each state CADC provision in effect for tax year 1993.

IV. Designing State Child and Dependent Care Tax Provisions: Issues and Choices

Numerous aspects of state CADC income tax provisions determine the value of any particular provision to any particular family and to families in general. Each of these aspects represents a choice for policymakers to make as they develop and implement a state CADC tax provision. This section reviews these choices, explaining the considerations that affect them and recommending the best approach to follow. A companion "report card," *Making the Grade for Care: Ranking State Child and Dependent Care Tax Provisions*, scores each state provision in effect for tax year 1993 based on the extent to which it incorporates the best policies described below.

A. Should States Enact CADC Tax Provisions?

A CADC tax provision is one of many measures policymakers can adopt to address families' child and dependent care needs. Why should policymakers choose this measure?

As discussed above, the high cost of child and dependent care makes its affordability a central concern for many families. A tax provision is a fairly straightforward way to increase the amount of money a family has to pay for care, although the provision must be generous enough to make a significant difference. Furthermore, CADC tax provisions treat employment-related care as a genuine, legitimate working expense and are the most direct way to address the inequity that arises in an income tax system when families with care expenses needed to earn income are treated as families with the same income but without such expenses. Enacting a tax provision in the current political climate, which disfavors creating new direct service or subsidy programs or increasing funding of existing ones, may also be more feasible politically. Furthermore, CADC provisions assist families in the workforce, a group for whom assistance is often more politically popular.

However, CADC tax provisions do have some limitations. Most importantly, they require that families incur employment-related care expenses "up front" to receive a tax benefit months later. Some families simply do not have the income to pay for such expenses at the outset or at all, while others can afford only care that costs much less than needed to derive the maximum benefit from a CADC tax provision. CADC tax provisions also do not

directly address issues of access to or quality of care, although by enabling families to pay more for care they can indirectly affect both.[23]

In short, CADC tax provisions address some of many families' employment-related care needs, but they do not address them all, and for some families they provide little help. A comprehensive solution to the problems families confront in obtaining quality care for children and dependents requires multiple strategies, including CADC tax provisions.

✓ ***Best Policy:*** *States should enact CADC income tax provisions as one of several measures aimed at increasing the affordability, availability, and quality of child and adult dependent care.*

B. Linkage to the Federal CADC Credit

As described above, most states with CADC tax provisions link them to the federal credit. For example, the state provision may be a credit equal to a specified portion of the federal credit or federally allowed expenses, or a deduction of federally allowed expenses or a specified portion of those expenses. States may choose to link their credit to the federal credit to make calculation of the state credit simple. Proponents of state CADC tax provisions may also have found that in practice the most generous provisions they could get enacted were based on the federal credit.

One consideration in linking a state provision to the federal credit is the effect of making the federal credit's features part of the state provision. Both the federal credit's advantages, such as its low-income targeting, and its deficiencies, such as gradual loss of low-income targeting because of the credit's failure to index its sliding scale thresholds, will be incorporated into the state provision. In addition, any time Congress changes the federal credit, the state provision linked to it will be affected automatically, regardless of the intent of the state's policymakers. Thus, when improvements are made in the federal credit, as, for instance, when the expense limits were revised upward in 1981, they are automatically incorporated into a federally-tied state credit. Similarly, when the federal credit is scaled back, as it was in 1988 when Congress lowered the age of children whose care expenses were covered from fifteen to thirteen, the coverage of federally-linked state provisions is

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[23] Arkansas has tried to enhance the indirect effect of its CADC tax credit on quality of care by increasing the credit for families with expenses for children ages three to five who are in "developmentally appropriate early childhood programs." Families with such expenses receive a state credit of 20 percent of the federal credit, rather than 10 percent, and for these families, the credit is refundable. The Arkansas approach, while interesting, excludes many quality care settings and, because of its age limitation, affects only a portion of children and dependents receiving employment-related care.

reduced. The only ways to avoid this effect are to write the federal credit's provisions directly into the state code, or to reference the federal credit as of a particular date,[24] but doing so then undercuts the main reason for linking the state provision to the federal credit — simplifying the state calculation.

The federal credit's nonrefundability warrants special attention here. When a state CADC credit is calculated as a percentage or portion of the federal credit — as is the case in thirteen of the twenty-three states with CADC tax provisions — an issue arises regarding calculation of the state credit for families who received only part or none of the federal credit because the federal credit exceeded their federal income tax liability. Is the state credit based on the amount of federal credit actually received, or is it based on the amount the family could have received before the federal credit's nonrefundability provision limited the credit actually received? For example, if a family's federal credit is $600 but their federal tax liability is only $400, the family is able to claim a credit of only $400 on their federal return. If the family's state credit is 25 percent of the federal credit, is the family entitled to take 25 percent of $600 — for a state credit of $150? Or only able to take 25 percent of $400 — for a state credit of $100? This issue is of particular concern to lower-income families who are most likely to have their federal credit limited by the nonrefundability provision.

The provisions of four states — the District of Columbia, Minnesota, Ohio, and Oregon — clearly provide that the state credit is based on the amount of credit the taxpayer is potentially eligible for, without regard to the nonrefundability provision. The provision in one state — Kansas — is explicitly limited to a percentage of the amount of federal credit actually received. In the remaining states, the statutory provision is ambiguous, referring to a percentage of the "allowable," "allowed," or "provided" federal credit. In some cases, the instructions accompanying the state tax form that explain how to calculate the state credit determine whether unused portions of the federal credit are part of the base figure used to determine the state credit.[25]

It is very important that state credits that are calculated as a percentage or portion of the federal credit explicitly provide that they are to be calculated without regard to the limits

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[24] Massachusetts, for example, provides a deduction for expenses eligible for the federal CADC credit as in effect on January 1, 1998.

[25] In Kentucky, Nebraska, and New York, for example, the state statutes provide for a credit of a specified percentage of the "allowed" federal credit. The Nebraska instructions explicitly provide that the percentage is to be applied to the amount of federal credit actually received. In Kentucky and New York, in contrast, the instructions direct the taxpayer to apply the percentage to the federal credit before it is limited by the nonrefundability provision.

imposed on the federal credit amount actually received because the federal credit is not refundable. Otherwise, lower-income families will also see their state credit reduced.

✓ ***Best Policy:*** *In general, state CADC tax provisions should be independent of the federal CADC tax provision, unless it is seems very likely that state policymakers will take a less generous approach now and in the future than the federal government. If a state CADC tax provision is tied to the federal provision, the state provision should clearly provide that it is based on the amount of the federal credit for which the taxpayer is eligible regardless of whether the taxpayer's total federal tax liability permits the taxpayer to receive any or all of the federal credit.*

C. Targeting Assistance to Lower-Income Families

Like any other tax credit or deduction, a CADC income tax provision represents tax revenue foregone by the state. Consequently, a state is unlikely to cover all the employment-related care expenses of all families who have them. Instead, the state will divide a more limited pot of money for the CADC income tax provision among the families with care-related expenses. The question is how to do that most equitably and efficiently. The more tax assistance that goes to higher-income families, the less is available to lower-income families. But it is lower-income families who are most in need of assistance with employment-related care expenses, which can eat up a very large portion of an already limited family budget.

✓ ***Best Policy:*** *State CADC tax provisions should target assistance to low- and moderate-income families.*

There are a number of ways to target CADC tax provisions to lower-income families, which are discussed below.

1. Credits versus Deductions

Of the twenty-three states with CADC tax provisions, eighteen have credits and five have deductions.[26] The choice between a credit or a deduction has a large effect on the usefulness of a tax provision for lower-income families. The tax savings value of a deduction is determined by, and rises with, the marginal tax rate. This means that in a progressive income tax system, higher-income taxpayers get more benefit from an identical

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[26] The states with credits are Arkansas, Delaware, the District of Columbia, Hawaii, Iowa, Kansas, Kentucky, Louisiana, Maine, Minnesota, Nebraska, New Mexico, New York, North Carolina, Ohio, Oregon, Oklahoma, and South Carolina. The states with deductions are Idaho, Maryland, Massachusetts, Montana, and Virginia.

deduction than do lower-income taxpayers. For instance, the value of a deduction of $2,000 of expenses for taxpayers in a 5 percent tax bracket is $100, while for those in a 10 percent bracket it is $200.[27] By contrast, an identical credit produces the same dollar value for lower- and higher-income taxpayers. For instance, a credit of 25 percent of CADC expenses for a family with $2,000 of expenses produces a credit of $500, regardless of the family's income. Furthermore, such a credit represents a greater portion of tax liability for the lower-income family. Thus, a $500 credit is 50 percent of the tax liability of a lower-income family that owes $1,000 in taxes but only 10 percent of the tax liability of a higher-income family that owes $5,000 in taxes.

In addition, state CADC deductions tend to produce smaller tax savings than do credits, because state tax rates tend to be relatively low. As a result, on average CADC tax deductions provide less assistance with care expenses than do CADC tax credits. Of course, that is not always the case. The value of a deduction in a state with relatively high tax rates can be greater than the value of a credit in a state that covers only a small portion of CADC expenses.[28]

✓ ***Best Policy:*** *CADC tax provisions should be tax credits rather than tax deductions, as the simplest way to target CADC assistance to low-income families and to enhance the levels of assistance generally.*

2. Refundability

Refundability is critical to ensuring that a CADC tax credit provides as much assistance as possible to low-income families.[29] The lowest income families are likely to have so little state tax liability that without a refundable CADC credit, they will derive little or no actual benefit from a CADC tax provision. Without refundability, a state CADC tax credit which looks generous on paper may in fact provide relatively little assistance to many families.

The CADC credits of four states — Hawaii, Iowa, Minnesota, and New Mexico — are fully refundable. In Arkansas, the credit is refundable only for expenses for children ages three to five in "developmentally appropriate early childhood programs."

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[27] One state — Montana — has offset this effect in part by providing a larger deduction for lower-income taxpayers.

[28] For instance, the maximum value of Idaho's CADC deduction — $394 — is greater than the maximum tax benefit provided by the credits of Arkansas, Kansas, Kentucky, Louisiana, Maine, Nebraska, New York, and Oklahoma.

[29] Refundability is not possible for tax deductions, another reason that deductions are less effective for low-income families.

✓ ***Best Policy:*** *State CADC tax provisions should be refundable.*

3. Sliding Scales and Maximum Income Limits

States can further target CADC benefits to low-income taxpayers through the use of sliding scales for determining the amount of benefits provided.

- For CADC tax provisions that are not tied to the federal credit, a sliding scale can reduce the proportion of employment-related care expenses that are claimed as a credit or deduction as the taxpayer's income rises. For example, a state that provides a credit for employment-related care expenses can structure its sliding scale to provide families with incomes below $15,000 a credit of 50 percent of their expenses; families with incomes between $15,000 and $25,000, a credit of 35 percent of their expenses; and families with incomes above $25,000, a credit of 20 percent of their expenses. Similarly, a state that provides a deduction for employment-related care expenses can structure its sliding scale to allow families with incomes below $15,000 to deduct 100 percent of their expenses; families with incomes between $15,000 and $25,000, to deduct 80 percent of their expenses; and families with incomes above $25,000, to deduct 60 percent of their expenses.

- For state CADC tax provisions that are tied to the federal credit, a sliding scale can reduce the proportion of federal credit or federally allowed expenses that are claimed as the taxpayer's income rises, thereby providing additional targeting to that provided in the federal credit itself. For example, a state that provides a credit that is a percentage of the federal credit can structure its sliding scale to give families with incomes less than $15,000 a credit of 100 percent of their federal credit; families with incomes between $15,000 and $25,000, a credit of 80 percent of their federal credit; and families with incomes above $25,000, a credit of 60 percent of their federal credit. Similarly, a state that provides a credit that is a percentage of federally allowed expenses can structure its sliding scale to give families with incomes less than $15,000 a credit of 100 percent of their federally allowed expenses; families with incomes between $15,000 and $25,000, a credit of 80 percent of their federally allowed expenses; and families with incomes above $25,000, a credit of 60 percent of their federally allowed expenses.

All thirteen states whose state credits are a portion of the federal credit indirectly incorporate the federal credit's sliding scale; of these, three — Iowa, Minnesota, and Ohio — further target their credits by providing lower-income taxpayers with a credit of a greater proportion of the federal credit than higher-income taxpayers. Of the three states whose credit is a percentage of federal expenses, one — Oregon — uses a sliding scale to determine the percentage of expenses that can be claimed. Of the three states whose CADC tax provisions are independent of the federal credit, two — Hawaii's credit and Montana's deduction — use a sliding scale.

Some sliding scales phase out any CADC tax benefit for taxpayers whose income is above a certain level. Six state CADC provisions have such maximum income limits, which range from a low of $17,680 in New Mexico to a high of $45,000 in Ohio.[30] The states that have provided greater amounts of assistance to low-income families have tended to impose maximum income limits, presumably to conserve resources that would otherwise be spent on higher-income families. Of the seven states whose maximum CADC tax benefits are greater than $500, five have a maximum income limit.[31] And of the five states with refundable credits, three have maximum income limits.[32] However, a maximum income limit runs counter to the principle that employment-related care expenses are a genuine, legitimate work expense for all families and undermines the ability of the CADC tax provision to promote equity for women and tax equity between families with and without employment-related care expenses. In addition, an upper limit set too low denies assistance to families for whom employment-related care expenses use up a significant portion of family income.

✓ ***Best Policy:*** *CADC provisions should use sliding scales to target the greatest amount of benefit to lower-income taxpayers. However, if possible, middle- and even higher-income families with employment-related care expenses should be eligible for some tax benefit. Maximum income limits should not be so stringent that they do not assist families for whom employment-related care expenses are a significant burden.*

D. Coverage for Both Children and Adults

Although child care expenses are probably the most common employment-related care expenses, many families incur employment-related care costs for adults — for instance, disabled adult children or elderly parents — that can be as great if not greater than those for children. All of the twenty states that calculate their state credit or deduction based on the federal CADC credit incorporate its coverage for care-related expenses for spouses and dependent adults as well as children.[33] Of the three states whose CADC tax provisions are independent of the federal provision only one, New Mexico, limits coverage to children; the

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[30] The other states are Iowa, Minnesota, Montana, and Ohio.

[31] These states are Iowa, Minnesota, New Mexico, Ohio and Oregon.

[32] These states are Iowa, Minnesota and New Mexico.

[33] North Carolina, in recognition of the higher cost of care for adult dependents and younger children, provides higher benefits for children under age seven and all dependents who are incapable of self-care than it does for children age seven and over.

other two, like the federal provision, cover care expenses for spouses and adult dependents incapable of self-care as well.[34]

In four states that cover adult dependents, the tax forms, the instructions, or both refer to the provision as a "child care" credit.[35] This label could mislead taxpayers with expenses for employment-related care of adults, who may assume that the provision covers only children and skip over it. To avoid confusion in this regard, tax forms and instructions should state clearly that adult and child care expenses are covered.

All state CADC tax provisions, like the federal credit, cover child care expenses for children under a particular age. The federal age limit, formerly fifteen and now thirteen, applies in states with CADC tax provisions linked to the federal credit, except for Massachusetts which applies the federal law in effect on a particular date when the age limit was fifteen. Of the three states with independent CADC tax provisions, one covers expenses for children under thirteen, the other two for children under fifteen. Provisions that cover dependents who are incapable of self-care also apply to children above the age limit with this level of incapacity.

✓ ***Best Policy:*** *State CADC tax provisions should cover care for children, spouses and adult dependents, and tax forms and instructions should be clear about the coverage of adults.*

E. Expense Limits

All state CADC tax provisions, like the federal CADC credit, place an absolute dollar limit on the amount of expenses that can be claimed for the credit or deduction. This reduces the cost of the provision to the government and in a sense is another way of targeting assistance to lower-income families, since only families with higher incomes can afford to incur relatively higher care expenses.

However, it is very important that expense limits be realistic in terms of the cost of care. Otherwise, families may receive no assistance for many of their expenses, which undercuts the effectiveness of the tax provision in providing meaningful assistance and reducing tax inequity. Even picking a limit that corresponds to the average cost of care in the state may be too low, because that leaves about half of all taxpayers who have

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[34] As previously noted, the Montana statute is unclear whether its coverage of expenses for adult dependents is limited to expenses that are incurred for care in the taxpayer's home. However, the Montana tax form indicate that both in-home and out-of-home care are covered for both children and adult dependents.

[35] These states are Arkansas, Delaware, Maine and Oklahoma.

employment-related care expenses with uncovered expenses. Furthermore, an expense limit that is too low may push families in the direction of lower-quality care.

States whose CADC provisions are linked to the federal credit incorporate its expense limits of $2,400 for one child, spouse, or dependent, and $4,800 for two or more, which are less than the average cost of good-quality care — approximately $5,000 a year for a child under age five and even more for an adult dependent. The three states whose CADC tax provisions are independent of the federal credit are not better in this regard; Hawaii has expense limits identical to the federal government; Montana limits expenses to $2,400 for one child or dependent, $3,600 for two, and $4,800 for three or more; and New Mexico limits expenses to $8.00 per day, per child.

✓ ***Best Policy:*** *Expense limits in CADC tax provisions should at least reflect the average costs of good-quality care in the state.*

F. Coverage for Both In-Home and Out-of-Home Care

Families have different needs and preferences in regard to the use of in-home or out-of-home arrangements to meet their employment-related care needs. As noted above, the federal credit treats these types of care identically (except for rules related to out-of-home care to prevent using the CADC tax provision for institutional care). This equal treatment is incorporated in the provisions of states that link their CADC tax provision to the federal credit. Although historically some of the states with independent provisions have distinguished between in-home and out-of-home care, none of these states currently limits the type of care arrangement eligible for coverage.[36]

In general, it is best to leave families with as much flexibility as possible in choosing their care arrangement. There is no reason for a state to favor one type of arrangement over another. Both can be of high quality and, given the difficulty families often have finding appropriate care, ruling out one sector of care arrangements can place unwarranted constraints on families.[37] If it is felt that differences in the overall cost of one or the other

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[36] As noted above, the Montana statute suggests that only in-home care expenses of adult dependents are eligible for the deduction, while covering both in-home and out-of-home care expenses for children under age fifteen, but the Montana state tax form does not make this distinction.

[37] As previously noted, to impose some quality standards the federal credit requires that expenses paid to a dependent care center meet applicable state and local laws. The effectiveness of this provision depends on the adequacy of the laws and regulations of the state and local area in which the family lives. Of the states with independent CADC provisions, only Hawaii has a similar limitation.

type warrant providing a greater benefit for the more costly care, actual costs should be carefully examined before they are written into the tax provision.

✓ ***Best Policy:*** *State CADC tax provisions should cover both in-home and out-of-home care arrangements without favoring one or the other.*

G. Indexing for Inflation

Some state CADC tax provisions include absolute dollar amounts for expense limits, sliding scale thresholds, and income limitations or maximum credit amounts. As was discussed above in terms of the federal credit, failure to adjust these amounts to account for inflation erodes a provision's ability to provide adequate amounts of assistance to families with employment-related care expenses and to target greater benefits to the most needy families. Only one state's CADC tax provision includes an indexing requirement: Minnesota's law requires that the threshold amounts and the income limitation be adjusted annually for inflation. (In some states, some indexing may also occur because of generally applicable requirements for indexing throughout the tax code.)[38]

✓ ***Best Policy:*** *Expense limits, sliding scale thresholds, income maximums, and other similar provisions should be indexed for inflation.*

H. Short Forms

Some states, like the federal government, use short forms for taxpayers with relatively uncomplicated financial situations to file their returns.[39] Short forms are used primarily by taxpayers with relatively low incomes. A number of the states with CADC tax provisions use short forms and permit taxpayers to claim their CADC credit or deduction on the short form; these states are Hawaii, Kansas, Massachusetts, Minnesota, New York, North Carolina, Oregon, and South Carolina. If a state has a short form, failure to include its state CADC provision on the form — as is the case in Iowa, Kentucky, Maine, Maryland, Montana, New Mexico, and Virginia — will result in many eligible families, particularly lower-income families, not claiming their CADC tax credit or deduction and so not receiving assistance for which they qualify.

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[38] State provisions that are tied to the federal CADC credit will have that credit's lack of indexing incorporated into their provision. If a state adds additional sliding scale thresholds or income limitations, however, these provisions can be indexed.

[39] For these purposes, EZ tax forms, which usually may not be used by taxpayers with children or other dependents, are not considered short forms.

✓ ***Best Policy:*** *Taxpayers should be able to claim CADC tax provisions on the short form, if the state has one.*

I. Filing Requirements for Married Couples

The federal government and some states, including the District of Columbia and Hawaii, require that a married couple file a joint return to be eligible for the CADC tax credit or deduction. Some states have rules for married couples filing separate returns to prevent the family from receiving the tax benefit twice. However, some states' requirements as to how the CADC tax provision is to be split between the spouses when they file separately may reduce the total tax benefit the family receives. For instance, the tax credits of Delaware and New York require that when a couple files separately, the credit must be applied to the spouse with the lower income. When the credit is not refundable, such a provision could result in partial or full loss of the credit, depending on the tax liability of the spouse with the smaller income. More reasonable approaches are those taken by New Mexico and Montana — whose provisions require the spouses to split the benefit evenly — and by Iowa — whose provision requires the spouses to divide the benefit according to the ratio of their respective incomes to their combined income. The best approach would be to allow spouses to divide the credit or deduction in the way that maximizes their CADC tax benefit, so long as they receive the credit only once. Virginia permits this when the spouses file separately on the same form. This approach is especially appropriate given that the federal credit and the state CADC provisions enacted to date leave many families with many uncovered expenses.

✓ ***Best Policy:*** *State CADC tax provisions should permit married couples filing jointly to split the credit or deduction in the way that maximizes the benefit to their household.*

J. Residency

Seven state CADC provisions — those of Delaware, Kansas, Kentucky, Maine, New Mexico, North Carolina, and Oklahoma — limit eligibility to residents. Eleven states — Arkansas, Idaho, Louisiana, Maryland, Massachusetts, Minnesota, Montana, New York, Ohio, South Carolina, and Virginia — do not address the issue. State CADC tax provisions should not be limited to full-year residents. A reasonable approach would be to prorate the amount of the tax benefit according to the expenses incurred while living or working in the state. Six states — the District of Columbia, Iowa, Nebraska, North Carolina, Oklahoma, and Oregon — follow this approach.[40]

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[40] In North Carolina and Oklahoma nonresidents are not eligible for the credit but part-year residents are eligible for a prorated credit.

✓ ***Best Policy:*** *State CADC tax provisions should provide explicitly that eligibility is not limited to full-time residents, although states may want to prorate benefits for part-year residents.*

V. Conclusion

Carefully drafted state child and dependent care tax provisions can help many families with large employment-related care expenses, promote equity for women, and enhance tax equity. In general, the most effective provisions are refundable credits which target much of their assistance to lower-income families.

APPENDIX

STATE CHILD AND DEPENDENT CARE TAX CREDITS: TAX YEAR 1993

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Dependent	Maximum: Two or More Dependents
AR	A *credit* of 10% of the "allowable" federal CADC credit, or of 20% if expenses are for developmentally appropriate early childhood education program for child 3 to 5 years old	Expenses eligible for the federal CADC credit[1]	Partially: credit for expenses for early childhood education program only	$144	$288
DE	A *credit* of 50% of the "allowable" federal CADC credit	Expenses eligible for the federal CADC credit	No	$360	$720
DC	A *credit* of 32% of the "allowed" federal CADC credit[2]	Expenses eligible for the federal CADC credit	No	$230	$461
HI	A *credit* of a specified percentage of eligible expenses as follows: - 25% if Hawaii AGI[3] is $22,000 or less - 15% if Hawaii AGI is over $40,000 - for Hawaii AGIs between $22,001 and $40,000, the percentage is 25 minus 1 percentage point for every $2,000 or fraction of $2,000 by which AGI exceeds $22,000	Covers expenses currently eligible for federal CADC credit.[4]	Yes	$600	$1,200

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[1]The federal CADC credit covers expenses for in-home and out-of-home care for:
- children under age 13
- spouses physically or mentally incapable of self-care, and
- dependents thirteen or older and physically or mentally incapable of self-care.

Expenses are capped at a maximum of $2,400 for one child, spouse, or dependent, and $4,800 for two or more.

[2]The District of Columbia statute specifically says that the taxpayer is entitled to a credit of 32% of the federal credit allowed, "regardless of the amount of the credit that is actually used to offset federal tax liability."

[3]AGI is adjusted gross income.

[4]Hawaii's provision is independent of the federal credit. For tax year 1993, the eligible expenses are identical to those eligible for the federal credit, and, for that reason, are not set forth here.

National Women's Law Center, Washington, D.C., April 1994

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Dependent	Maximum: Two or More Dependents
ID	A *deduction*[5] of expenses eligible for the federal credit	Expenses eligible for the federal CADC credit	No	$197	$394
IA	A *credit* of a specified percentage of the "provided" federal credit as follows: - 75% if Iowa net income is less than 10,000 - 65% if Iowa net income is between $10,000 and $19,999 - 55% if Iowa net income is between $20,000 and $24,999 - 50% if Iowa net income is between $25,000 and $34,999 - 40% if Iowa net income is between $35,000 and $39,999. No credit is allowed if Iowa net income is $40,000 or more.	Expenses eligible for the federal CADC credit	Yes	$540	$1,080
KS	A *credit* of 25% of the federal CADC credit "allowed against the taxpayer's federal income tax liability"	Expenses eligible for the federal CADC credit	No	$180	$360
KY	A *credit* of 20% of the "allowed" federal CADC credit	Expenses eligible for the federal CADC credit	No	$144	$288
LA	A *credit* for "child care" equal to 10% "of the same credit allowed on the federal income tax return," but no greater than $25	Expenses eligible for the federal CADC credit	No	$25	$25
ME	A *credit* of 25% of the "allowable" federal CADC credit	Expenses eligible for the federal CADC credit*	No	$180	$360

[5]Idaho's top tax rate is 8.2%.

National Women's Law Center, Washington, D.C., April 1994

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Dependent	Maximum: Two or More Dependents
MD	A *deduction*[6] of expenses up to the dollar amount of expenses allowed under the federal credit	Expenses eligible for the federal CADC credit	No	$144	$288
MA	A *deduction*[7] of expenses up to $2,400 for one child or dependent, $4,800 for two or more	Expenses eligible for the federal CADC credit as in effect on January 1, 1988[8].	No	$143	$286
MN	A *credit*, for taxpayers with incomes no greater than $15,180, of up to the full amount of the federal CADC credit for which the taxpayer is "eligible"[9] up to a maximum of $720 for one child or dependent and a maximum of $1,440 for two or more. For taxpayers with incomes over $15,180, the maximum credit is reduced by $18 for every additional $350 of income for one child or dependent; by $36 for every additional $350 income for two or more. No credit is allowed if income is over $28,829. The thresholds and the income limitation are indexed for inflation.	Expenses eligible for the federal CADC credit	Yes	$720	$1,440

[6]Maryland's top tax rate is 6 percent.

[7]Massachusetts' tax rate, applicable to all income levels, is 5.95%

[8]The federal credit in effect on January 1, 1988, includes expenses for children age 13 and 14, as well as all other expenses currently covered by the federal credit.

[9]The Minnesota statute states that even taxpayers who are not required and do not file a federal tax return may claim a Minnesota credit based on the federal credit for which they would have been eligible.

National Women's Law Center, Washington, D.C., April 1994

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Dependent	Maximum: Two or More Dependents
MT	A *deduction* of eligible expenses. For adjusted gross incomes over $18,000, deductible expenses are reduced by one half of the amount of income over $18,000. No deduction is allowed if Montana adjusted gross income is over $22,800 for one child, spouse or dependent $25,200 for two, $27,600 for three or more.	Expenses for in-home and out-of-home care for: - children under age 15 - spouses physically or mentally incapable of self-care, and -dependents physically or mentally incapable of self-care.[10] Expenses are capped at a maximum of $2,400 for one child, spouse, or dependent, $3,600 for two or more, and $4,800 for three or more.	No	$139	$199 for two, $259 for three or more
NE	A *credit* of 25% of the "allowed" federal CADC credit	Expenses eligible for the federal CADC credit	No	$180	$360
NM	A *credit* of 40% of eligible expenses. Total credit is limited to $480 for one child, $960 for two, and $1,200 for two or more. No credit is allowed if New Mexico modified gross income is over $17,680.	Expenses for in-home and out-of-home care for children under age 15. Expenses are capped at a maximum of $8 per day, per child.	Yes	$480	$960 for two, $1,200 for three or more
NY	A *credit* of 20% of the "allowed" federal CADC credit	Expenses eligible for the federal CADC credit	No	$144	$288
NC	A *credit* of 10% of "allowed" federal CADC expenses for children under age 7 and for children and other dependents who are incapable of self-care; 7% of "allowed" federal CADC expenses for children age 7 and older.	Expenses eligible for the federal CADC credit	No	$240	$480

[10]The Montana statute seems to suggest that only expenses for in-home care of dependents are eligible for the deduction, while covering both in-home and out-of-home care expenses for children under age 15. However, the Montana tax form does not make this distinction.

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Dependent	Maximum: Two or More Dependents
OH	A *credit* of a specified percentage of the federal credit for which the taxpayer is "eligible"[11] as follows: - 35% if Ohio AGI is less than 20,000 - 25% if Ohio AGI is between $20,000 and $39,999. No credit is allowed if Ohio AGI is more than $40,000.	Expenses eligible for the federal CADC credit	No	$252	$504
OK	A *credit* of 20% of the "allowed" federal CADC credit	Expenses eligible for the federal CADC credit	No	$144	$288

[11]The Ohio statute specifically says that the credit is based on the amount of the federal credit for which the taxpayer is eligible, "without regard to any limitations imposed by" the federal credit's nonrefundability provision.

National Women's Law Center, Washington, D.C., April 1994

State	Basic Provision	Eligible Expenses	Refundable	Maximum: One Dependent	Maximum: Two or More Dependents
OR	A *credit* of a specified percentage of expenses allowable for the federal credit[12] as follows: - 30% if federal taxable[13] income is less than $5,001 - 15% if federal taxable income is between $5,001 and $10,000 - 8% if federal taxable income is between $10,001 and $15,000 - 6% if federal taxable income is between $15,001 and $25,000 - 5% if federal taxable income is between $25,001 and $35,000 - 4% if federal taxable income is between $35,001 and $45,000. No credit is allowed if federal taxable income is over $45,000.	Expenses eligible for the federal CADC credit	No	$720	$1,440
SC	A *credit* of 7% of federal CADC expenses	Expenses eligible for the federal CADC credit	No	$168	$336
VA	A *deduction*[14] of expenses on which the federal CADC credit is based	Expenses eligible for the federal CADC credit	No	$138	$276

[12]The Oregon statute specifically says that the credit is based on the expenses allowable "notwithstanding the limitation imposed by" the federal credit's nonrefundability provision.

[13]Federal taxable income is federal adjusted gross income less federal exemptions and deductions.

[14]Virginia's top tax rate is 5.75%

State Child and Dependent Care Tax Provisions:
Tax Year 1993

State	Citation
Arkansas	Ark. Code Ann. § 26-51-502 (Michie 1993)
Delaware	Del. Code Ann. tit 30, §1114 (1992)
District of Columbia	D.C. Code Ann. §47-1806.4 (1993)
Hawaii	Haw. Rev. Stat. § 235-55.6 (1993)
Idaho	Idaho Code §63-3022D (1993)
Iowa	Iowa Code §422.12C (1992)
Kansas	Kan. Stat. Ann. §79-32, 111a (1992)
Kentucky	Ky. Rev. Stat. Ann. §141.067 (Baldwin 1993)
Louisiana	La. Rev. Stat. 47:297 (1992)
Maine	Me. Rev. Stat. tit. 6, §5218 (1992)
Maryland	Md. Code Ann. Tax-General §10-208 (1993)
Massachusetts	Mass. Gen. L. ch. 62, §3 (1993)
Minnesota	Minn. Stat. §290.067 (1993)
Montana	Mont. Code Ann. §15-121 (1993)
Nebraska	Neb. Rev. Stat. §77-2715.07 (1992)
New Mexico	N.M. Stat. Ann. §7-2-18.1 (1993)
New York	N.Y. Tax Law §606 (Consol. 1993)
North Carolina	N.C. Gen. Stat. §105-151.11 (1992)
Ohio	Ohio Rev. Code Ann. §5747.054 (Baldwin 1993)
Oklahoma	Okla. Stat. tit. 68, §2357 (1992)
Oregon	Or. Rev. Stat. §316.078 (1991)
South Carolina	S.C. Code Ann. §12-7-1230 (1991)

National Women's Law Center, Washington, D.C., April 1994